

GRAYLING RECREATION AUTHORITY

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2008

GRAYLING RECREATION AUTHORITY

CRAWFORD COUNTY

BOARD OF DIRECTORS

Chris Jones, Chairman

Brad Wagner, Vice Chairman

Pauline Petrosky, Treasurer

Cari Oppermann, Secretary

Mike Lange

Dave Jansen

John Haven

Jim Pickell

Brad Summers

GRAYLING RECREATION AUTHORITY

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

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INDEPENDENT AUDITOR'S REPORT

November 5, 2008

Board of Directors
Grayling Recreation Authority
P.O. Box 361
Grayling, Michigan 49738

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements, of the Grayling Recreation Authority as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and major fund of the Grayling Recreation Authority as of September 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in dark ink, appearing to read 'J. M. Anderson', is written over the printed name.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MEMBER MACPA and AICPA

GRAYLING RECREATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008

Using this Annual Report

Our discussion and analysis of the Grayling Recreation Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2008. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

Overview of the Financial Statements

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the Authority:

- . The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Authority's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Recreation Authority as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

GRAYLING RECREATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the Authority you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of the Authority's fixed assets and facilities.

Financial Analysis of the Recreation Authority as Whole

Because the entity is audited every other year, only current year data is presented.

Net Assets

The Authority ended the year with net assets of \$265,220 of which \$241,064 was invested in capital assets leaving \$24,156 as undesignated. The Authority invested \$141,768 in capital assets during the year which contributed to the surplus in net assets.

The net assets as of the year ended September 30, 2008, are as follows:

Current and Other Assets	\$ 45,620
Capital Assets	<u>241,064</u>
Total Assets	<u>286,684</u>
Current Liabilities	<u>21,464</u>
Total Liabilities	<u>21,464</u>
Net Assets	
Invested in Capital Assets	241,064
Unrestricted	<u>24,156</u>
Total Net Assets	<u><u>\$ 265,220</u></u>

GRAYLING RECREATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Changes in Net Assets

Operating Revenue	
Charges for Services	\$ 164,188
Nonoperating Revenue	
Taxes Levied for Authority	268,052
Local Grants and Donations	10,881
Interest	<u>1,013</u>
Total Revenue	<u>444,134</u>
Operating Expense	
Salaries and Wages	165,466
Fringe Benefits and Payroll Taxes	32,544
Depreciation	40,119
Other	<u>151,181</u>
Total Operating Expense	<u>389,310</u>
Income (Loss)	54,824
Beginning Net Assets	<u>210,396</u>
Ending Net Assets	<u><u>\$ 265,220</u></u>

GRAYLING RECREATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Capital Asset and Debt Administration

At September 30, 2008, the Authority had \$241,064 invested in capital assets. This amount represents a net increase (including additions and deductions) of \$101,649 or 72.91% as follows:

	<u>2008</u>	<u>2007</u>	<u>Total Percentage Change 2007-2008</u>
Capital Assets Not Being Depreciated			
Land	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Capital Assets Being Depreciated			
Building	162,556	80,149	102.81
Furniture & Fixtures	14,917	14,370	3.80
Equipment	<u>654,728</u>	<u>595,914</u>	<u>9.86</u>
Subtotal	<u>832,201</u>	<u>690,433</u>	<u>20.53</u>
Total Capital Assets	<u>832,201</u>	<u>690,433</u>	<u>20.53</u>
Total Accumulated Depreciation	<u>591,137</u>	<u>551,018</u>	<u>7.28</u>
Total Net Capital Assets	<u><u>\$ 241,064</u></u>	<u><u>\$ 139,415</u></u>	<u><u>72.91</u></u>

Please refer to the notes of the financial statements for more detailed information.

**GRAYLING RECREATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

The Grayling Recreation Authority (GRA) was established with the cooperation of the Michigan National Guard and the State Military Board. A special law was passed to allow the "Authority" to operate as a "consortium" under a non-profit basis.

GRA maintains and operates Hanson Hills Recreation Area and the Grayling Fish Hatchery. In addition GRA organizes and implements recreation programs and special events that include; Michigan Cup Ski Races, running and mountain biking competitions, youth programs, adult softball league and Nordic Ski Team.

The winter ski season contributed many factors in the increase of income and expenses. Decent snowfall and careful planning allowed for efficient snowmaking and grooming practices to ensure a "Christmas Break" opening date for the downhill operations. This early opening date allowed for a thirty thousand dollar increase in income for that week. Participation numbers were up in all areas of our winter operations (Downhill, Nordic, Tubing).

The equipment for grooming and lift operations have been maintained properly, we did however incur a large expenditure in the repair of our downhill groomer this past year. Many upgrades were made to the grounds/facilities at Hanson Hills Recreation Area. We were able to demolish the old Fred Bear Museum, Re-pave our entrance driveway, install a new playground structure, and build a new storage/maintenance garage.

Next Year's Forecast

Operations should show an increase in participation, especially in the Nordic skiing, and Tubing operations. The addition of seven miles of Mountain Bike/Hiking trails and the Playground structure should help to increase warm weather participation at Hanson Hills Recreation Area. GRA has taken the leadership role in the development of the Crawford County Recreation Plan; the implementation of this plan will help with the approval of grant monies for future projects. Grayling Fish Hatchery should show an increase in participation and revenue.

GRAYLING RECREATION AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

ASSETS

Current Assets:

Cash	\$ 43,697
Taxes receivable	<u>1,923</u>

Total Current Assets	45,620
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Capital Assets - Net	<u>241,064</u>
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Total Assets	<u>286,684</u>
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LIABILITIES

Current Liabilities:

Accounts payable	11,600
Accrued liabilities	<u>9,864</u>

Total Current Liabilities	<u>21,464</u>
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NET ASSETS:

Invested in capital assets, net of related debt	241,064
Unrestricted	<u>24,156</u>

Total Net Assets	<u><u>\$ 265,220</u></u>
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The accompanying notes are an integral part of these financial statements.

GRAYLING RECREATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008

Operating Revenue		
Membership Fees	\$	10,640
Cross Country Ski Trail Fees		8,911
Ski Tow Fees		25,159
Ski Equipment Rentals		12,105
Tubing Hill		14,701
Locker Rentals		170
Building User Fees		5,577
Food and Beverage Sales		13,900
Vending Sales		162
Ski Shop Sales		560
Lessons Fees		7,248
Special Events		12,105
Recreation Programs		12,254
Hatchery Revenue		40,174
Miscellaneous		<u>522</u>
Total Operating Revenue	\$	164,188
Operating Expense		
Salaries and Wages		165,466
Payroll taxes		23,471
Fringes		9,073
Supplies		18,079
Maintenance		33,594
Utilities		19,593
Gasoline		6,297
Promotion and Advertising		15,417
Insurance		26,550
Sales Tax		796
Food and Beverage		7,819
Depreciation		40,119
Special Events		8,778
Uniforms		1,224
Merchandise		572
Hatchery Supplies		12,133
Miscellaneous		<u>329</u>
Total Operating Expense		<u>389,310</u>
Operating Income (Loss)		(225,122)
Nonoperating Revenues (Expense)		
Property Taxes		268,052
Local Grants and Donations		10,881
Interest Income		<u>1,013</u>
Total Nonoperating Revenues (Expenses)		<u>279,946</u>
Increase (Decrease) in Net Assets		54,824
Net Assets- October 1, 2007		<u>210,396</u>
Net Assets - September 30, 2008	\$	<u><u>265,220</u></u>

The accompanying notes are an integral part of these financial statements.

GRAYLING RECREATION AUTHORITY
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2008

Cash Flows From Operating Activities	
Received from Customers	\$ 164,238
Payments to Employees	(185,010)
Payments to Suppliers	<u>(157,019)</u>
Net Cash Provided by Operating Activities	<u>(177,791)</u>
Cash Flows From Noncapital Financing Activities	
Property Taxes	269,902
Local Grants and Donations	10,881
Interest Income	<u>1,013</u>
Net Cash Provided by Noncapital Financing Activities	<u>281,796</u>
Cash Flows From Capital Financing Activities	
Purchase of Fixed Assets	(141,768)
County Debt	<u>(1,200)</u>
Net Cash Provided by Capital Financing Activities	<u>(142,968)</u>
Net increase (Decrease) in Cash and Cash Equivalents	(38,963)
Cash and Cash Equivalents at Beginning of Year	<u>82,660</u>
Cash and Cash Equivalents at End of Year	<u>\$ 43,697</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (225,122)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	40,119
Change in Assets and Liabilities	
(Increase) Decrease in Accounts receivable	50
Increase (Decrease) in Accounts Payable	4,435
Increase (Decrease) in Due to County / City	(1,200)
Increase (Decrease) in Payroll withholding	<u>3,927</u>
Net Cash Provided by Operating Activities	<u>\$ (177,791)</u>

The accompanying notes are an integral part of these financial statements.

GRAYLING RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A - DESCRIPTION OF OPERATIONS AND FUND TYPE

The Grayling Recreation Authority was created March 1977 in accordance with the provisions of Act 156, PA 1917. Its purpose is to operate Rasmus Hanson Park and promote recreation in the Crawford County area with an emphasis on skiing. The Authority operates under a 9 member Board, appointed by the respective municipal corporations, comprised of 2 from the Township of Grayling, 2 from the Crawford-AuSable School District, 2 from the County of Crawford and 3 members-at-large. The Authority leases Rasmus Hanson Park from the State Military Board, State of Michigan, at no cost.

The Authority is, for financial reporting purposes within accounting principles generally accepted in the United States of America, an enterprise fund.

Grayling Recreation Authority is a jointly governed organization as defined by GASB No. 14 which states, "The laws in many states provide for the creation of regional governments or other multi governmental arrangements that are governed by representatives from each of the governments that created the organization. These organizations may appear to be similar to joint ventures, they provide goods or services to the citizenry of two or more governments, but many do not meet the definition of a joint venture because there is no ongoing financial interest or responsibility by the participating governments."

NOTE B - DESCRIPTION OF FUND

Enterprise Fund

This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Grayling Recreation Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

GRAYLING RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accrual basis of accounting is followed. The accrual basis provides that revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Capital Assets

Fixed assets are stated at cost or fair market value at date of acquisition. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Donated fixed assets are stated at their market value as of the donation date.

DEPRECIATION

Depreciation is computed on straight-line method for all capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

GRAYLING RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE D - CASH DEPOSITS

Deposits are carried at cost. Deposits of the Authority are at 2 banks in the name of the Authority's Treasurer. Act 217, PA 1982, as amended, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States,; repurchase agreements; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase; obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money not listed above. The Authority's deposits are in accordance with statutory authority. The risk disclosures for the Authority deposits, as required by Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank</u>
Insured (FDIC)	<u>\$ 43,697</u>	<u>\$ 44,304</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

GRAYLING RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE D - CASH DEPOSITS (CONTINUED)

Concentration of Credit Risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

NOTE E - PROPERTY TAXES

Crawford County has a special millage of .50 mills for the Authority that is levied each December 1 on the taxable valuation of property located in the County as of the preceding December 31st. The tax is used for general operations of the Authority. Taxes collected for this fiscal year amounted to \$268,052.

NOTE G - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2008 was as follows:

	<u>Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of Year</u>
Capital assets:				
Buildings and improvements	\$ 80,149	\$ 82,407	\$ -0-	\$ 162,556
Furniture and Fixtures	14,370	547	-0-	14,917
Snow equipment	383,515	18,597	-0-	402,112
Miscellaneous equipment	<u>212,399</u>	<u>40,217</u>	<u>-0-</u>	<u>252,616</u>
Total capital assets	690,433	141,768	-0-	832,201
Less: Accumulated depreciation	<u>551,018</u>	<u>40,119</u>	<u>-0-</u>	<u>591,137</u>
Net capital assets	<u>\$ 139,415</u>	<u>\$ 101,649</u>	<u>\$ -0-</u>	<u>\$ 241,064</u>

GRAYLING RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE H - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE I - PROPERTY LEASE

The 277 acres of property which the Grayling Recreation Authority operates its activities known as "Hanson Hills" is leased from the State of Michigan with approval from the Department of Military at no cost. The term of the lease is from August 30, 2006 and expires August 30, 2026.

GRAYLING RECREATION AUTHORITY

REPORT TO MANAGEMENT

SEPTEMBER 30, 2008



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

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November 5, 2008

Board of Directors
Grayling Recreation Authority
P.O. Box 361
Grayling, Michigan 49738

In planning and performing my audit of the financial statements of the Grayling Recreation Authority, as of and for the year ended September 30, 2008, I considered the Authority's accounting, operational, and internal control procedures to determine the nature and extent of my audit testing for the purpose of expressing an opinion on the financial statements of the Authority and not to provide assurance on the procedures themselves.

I did however, during the course of my audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 5, 2008, on the financial statements of the Grayling Recreation Authority.

I have already discussed these comments and suggestions with the Authority's personnel, and I will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.

Sincerely,

A handwritten signature in dark ink, appearing to read "J M Anderson", is written over a light blue horizontal line.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MEMBER MACPA and AICPA

**GRAYLING RECREATION AUTHORITY
COMMENTS AND RECOMMENDATIONS
SEPTEMBER 30, 2008**

Clearing Account

This account is used in Quickbooks to account for items that have not been readily determined as to how they are to be accounted for. During the audit, we found the account had items in it that were not cleared as of the year end cut off of September 30th. I recommend that this account be reconciled within 30 days of the month end. It is my understanding that this procedure has been implemented.

Coupons

Discount and free passes are issued by management in the form of a business card. These are not prenumbered or signed. This creates a control weakness as the unissued cards are not accounted for. I recommend that the cards be prenumbered, the name of the recipient be put on it, and the issuer initial or sign the card. This reduces the likelihood of abuse or fraud and allows for accounting of both the issued and unissued cards.

Kitchen Sales

The kitchen sales increased in the audit year compared to the prior year. However, the cost of sales is approximately 56%. It is my understanding that the ski patrol eat complimentary meals using \$6.00 coupons. These are not being accounted for separately. The target cost of sales should be 35% to 40% without the coupons. I recommend that the coupons issued be accounted for and a review of pricing and controls be done to attempt a better profit margin.



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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November 5, 2008

Board of Directors
Grayling Recreation Authority
P.O. Box 361
Grayling, MI 49738

I have audited the financial statements of the business-type activity and major fund of the Grayling Recreation Authority for the year ended September 30, 2008, and have issued my report thereon dated November 5, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated November 4, 2008, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Grayling Recreation Authority. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Grayling Recreation Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

MEMBER MACPA and AICPA

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Grayling Recreation Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Grayling Recreation Authority during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Grayling Recreation Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Grayling Recreation Authority, either individually or in the aggregate, indicate matters that could have a significant effect on Grayling Recreation Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

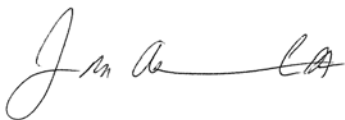
Issues Discussed Prior to Retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Grayling Recreation Authority's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

James M. Anderson, P.C.
Certified Public Accountant